

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 58th LEGISLATURE - REGULAR SESSION

JOINT APPROPRIATIONS SUBCOMMITTEE ON NATURAL RESOURCES AND COMMERCE

Call to Order: By **CHAIRMAN JEFF PATTISON**, on February 12, 2003
at 8 A.M., in Room 317-C Capitol.

ROLL CALL

Members Present:

Rep. Jeff Pattison, Chairman (R)
Sen. Bill Tash, Vice Chairman (R)
Sen. Edward Butcher (R)
Rep. John Musgrove (D)
Sen. Linda Nelson (D)
Rep. Rick Ripley (R)
Sen. Debbie Shea (D)

Members Excused: None.

Members Absent: None.

Staff Present: Kelly Gorin, OBPP
Elaine Olsen, Committee Secretary
Doug Schmitz, OBPP
Todd Younkin, Legislative Branch

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed. Tape time stamp refers to the material which follows.

Committee Business Summary:

Hearing & Date Posted: Department of Commerce overview,
2/12/2003
Executive Action: None.

{Tape: 1; Side: A; Approx. Time Counter: 1 - 17}

Michelle Barstad, Executive Director, Montana Facility Finance Authority, Department of Commerce (DOC), said the 1983 legislature originally established the Authority to help hospitals and nursing homes access tax-exempt interest rates. That is accomplished through the issuance of revenue bonds. Since the inception of the program, the Authority has structured over \$1 billion of financing with no defaults on any of the financing.

EXHIBIT(jnh31a01)

Michelle Barstad stated the program was originally structured for health care. Since that time the legislature added community providers such as care for people with developmental disabilities and prerelease centers. She reviewed the exhibit which describes program highlights. She presented the Committee with a map which illustrates the locations in Montana where the Authority has projects in place.

EXHIBIT(jnh31a02)

CHAIRMAN PATTISON asked Michelle Barstad about the type of facilities which qualify for loans. **Michelle Barstad** replied the definition is set in statute. **CHAIRMAN PATTISON** asked how the rates are set. **Michelle Barstad** reported the rates vary according to the program that is being used. The credit quality of the transaction and the interest rates at the time impact the bond rates. **CHAIRMAN PATTISON** inquired about the ratio of applications to those that are qualified. **Michelle Barstad** said if the entity does not qualify for loans from the Authority, funding from other programs is sought. The number of applicants that receive no funding assistance from some source is very small.

{Tape: 1; Side: A; Approx. Time Counter: 17 - 30}

Betsy Baumgart, Administrator, Montana Promotion Division, DOC, said the Division's mission is to strengthen the State's economy through the promotion of the State as a vacation destination and a location for film production. Last year the state hosted 10 million visitors and those visitors spent \$1.8 billion in Montana. She highlighted facts from the exhibit.

EXHIBIT(jnh31a03)

Betsy Baumgart reported that competition for the tourist market is increasing. The Division receives all their funding from the lodging tax. Currently the Division receives 59 percent of the taxes collected. The advertising budget has dropped while the cost of ads has increased disproportionately. The Montana Film Office and the Travel Montana Office are two successful promotion programs in the Division.

EXHIBIT (jnh31a04)

EXHIBIT (jnh31a05)

Betsy Baumgart said the film industry, including advertisements, bring a lot of money into Montana. Travel Montana promotional marketing is accomplished through broadcast, print and electronic media.

{Tape: 1; Side: B; Approx. Time Counter: 1 - 18}

Betsy Baumgart stated that Travel Montana's role is to promote Montana and to create an overall image of the state. The Division works together with other public and private entities to promote travel in Montana. She gave an overview of the Lewis and Clark Bicentennial promotion project, highlighting the electronic media. Television advertising is purchased based on the number of inquiries resulting from the ad. She showed one ad to the Committee.

Betsy Baumgart gave an overview of work that is done with regional entities such as familiarization tours and local video promotions. She described the work done with communities to improve their tourism development and education programs. The Division provides grants to local communities for promotions and for tourism-related infrastructure projects.

Betsy Baumgart said the accommodations tax provides a stable funding source for the promotion of tourism. In addition, Montana has a strong integrated marketing program on a state, regional and local level. Individuals in the industry have planned ahead.

EXHIBIT (jnh31a06)

{Tape: 1; Side: B; Approx. Time Counter: 18 - 30}

Betsy Baumgart described how the strategic plan for tourism was developed through the use of input from citizens across the state. Long-range visions were developed.

REP. MUSGROVE asked about attracting more of the film industry to Montana. **Betsy Baumgart** replied that the Division tries to remind companies that labor in Montana is a little bit cheaper. The Division highlights the beauty of the state and their willingness to provide services to make the project go smoothly.

CHAIRMAN PATTISON asked if the figures which illustrate how much money tourists spend in Montana take into consideration the cost of hosting those tourists. **Betsy Baumgart** said that the figures discussed are direct dollars; the report does not take expenses into consideration nor does it include indirect income.

CHAIRMAN PATTISON asked if the Division limited the types of advertising promotions they work with, such as tobacco companies. **Betsy Baumgart** said that so far, the Division has not limited the type of advertisers they work with.

{Tape: 2; Side: A; Approx. Time Counter: 1 - 14}

SEN. TASH commented that at some point the number of tourists in the state might exceed what the environment can handle. **Betsy Baumgart** stated that the long-range vision plan addresses that balance and that some communities are easing up on their promotions.

SEN. BUTCHER asked how the tourist dollars are measured. **Betsy Baumgart** said surveys and research by the agency and other entities provide the information. Hotel sreport an 80 percent occupancy rate. **SEN. BUTCHER** commented that he is skeptical of the survey numbers because different entities are taking credit for the same tourist dollars.

{Tape: 2; Side: A; Approx. Time Counter: 14 - 30}

Betsy Baumgart answered questions from the Committee regarding cost-effective spending on advertising. International advertising is accomplished through trade shows. Most of Montana's international visitors come from Germany, the United Kingdom and Italy. Advertising in the Pacific rim countries is very expensive. International visitors come to Montana to see the national parks. State promotional material is placed in towns and cities near the parks.

{Tape: 2; Side: B; Approx. Time Counter: 3 - 21}

Andy Poole, Administrator, Business Resources Division, DOC, provided a handout which outlines the Division structure and programs. Bureaus within the Division include the Regional

Development Bureau, the Board of Research and Commercialization, the Trade and International Relations Bureau, the Census and Economic Information Center Bureau, and the Small Business Development Bureau. The Division's purpose is to provide better economic opportunities for Montana citizens by helping business creation, expansion and retention projects. This is accomplished by providing technical assistance and some limited financing to businesses.

EXHIBIT (jnh31a07)

Andy Poole said the Division is funded with a combination of General Fund, State Special Revenue, and federal funds. The budget estimates about \$1.45 million in General Fund for each year of the biennium.

Andy Poole said HB177 proposed to eliminate funding for the Board of Research and Commercialization Technology. The Board is currently funded to provide grants to companies and private research institutions in Montana. If HB177 passes the Board would have to continue to monitor existing grants.

Andy Poole stated the Regional Development Bureau has offices in five Montana communities. The Bureau provides resources to business, local development corporations and communities in their regional. They provide technical assistance to obtain financing for business expansion, retention and recruitment projects and they are the access point to all relevant DOC resources. The Bureau helps the small communities to understand where the resources are and how to put a project together to qualify for those funds.

Andy Poole reported that the Commerce Loan Fund portion of the Bureau provides \$2.5 million each year from the Department of Housing and Urban Development (HUD) for the community Development Block Grant Program (CDBG). In 2001 and 2002 the CDBG granted \$3.8 million to Montana communities for loans to local communities. Funding provided for matching funds and helped to establish revolving loan funds within the communities.

Andy Poole highlighted the workings of the Forest Service Funds which were managed by the bureau in 2001 and 2002. The funds were awarded to communities and revolving loan funds to assist business in areas impacted by United States Forest Service (USFS) projects. Twenty-eight communities and businesses were assisted and 54 jobs were created and retained as a result of the projects funded.

REP. MUSGROVE asked about the success of retraining programs. **Andy Poole** said often the training is directed toward what an individual thinks they want to do, rather than focusing on skills that are in demand in Montana. The Work Force Investment Act Funds are directed toward the second model.

Andy Poole outlined the other statutory responsibilities of the Regional Development Bureau which include the Certified Communities Program and the Montana Capital Company Act.

{Tape: 2; Side: A; Approx. Time Counter: 3 - 15} (Error in tape sequence; tape time stamp is correct.)

Andy Poole said that in the Certified Communities Program HB76 would modify existing statute by funding up to 12 regional development corporations that would provide technical and financial services in the region that they cover. HB177 proposed to reduce the annual funding by \$25,000 each year to a total of \$400,000. Currently the program provides fund to 66 Montana Communities. The Montana Capital Company Act provides tax credit incentives to investors in Montana capital companies. Five bills are being drafted this session that would provide additional tax credits for capital companies.

Andy Poole gave a brief description of the Aerospace Bonding program and the Finance Information Center. The statute requires the center to compile a list of financial assistance programs including information on who is eligible, the conditions required, the limits on fund availability and the application information. The website provides easy access to the information including the applications.

Andy Poole said the Census and Economic Information Center (CEIC) is a central depository of information including computer-retrievable files concerning the significant characteristics of the state, its people, economy, land and physical characteristics. The objective of the Center is to provide research and economic and demographic information services. In January of 2003, 11,333 visitors accessed the CEIC website.

EXHIBIT (jnh31a08)

{Tape: 2; Side: A; Approx. Time Counter: 15 - 30}

Andy Poole provided details on the Trade and International Relations Bureau which identifies opportunities for worldwide and domestic trade and provides representation, information and technical assistance to Montana business and citizens. The

objective of the Bureau is to help Montana businesses to pursue trade opportunities. The Bureau provides technical assistance for Montana exporters.

Andy Poole said the Made in Montana Program is designed to provide unique identity to value-added products made and/or grown in Montana. HB177 would reduce the statutory funding for the Trade Bureau and would eliminate the program. Small Business Development Centers help start-up and existing businesses by providing information and assistance through one-on-one counseling and training. They have worked with over 6,100 Montana business and have helped those entities secure \$81.3 million in financing.

{Tape: 3; Side: A; Approx. Time Counter: 1 - 14}

Andy Poole said the Small Business Innovation Research (SBIR) program was established to provide statewide outreach to communities that are applying to the federal government for research and development grant funding. The Montana Microbusiness Finance Program provides financing to help business get started or to expand. The intent of the program is to finance business projects that would not otherwise be able to obtain financing.

Andy Poole reported that the NxLevel Training program provides basic business management training through classroom and internet training. The objective of the program is to build the business management skills of rural and reservation-based microbusinesses. The programs works to develop close and effective working relationships between staff and other resources. Montana has the highest number of small business proprietors in the nation

SEN. TASH asked what percentage of the small business are involved in agriculture.

SEN. SHEA said that in her work with dislocated workers, she has taken the NxLevel course. It is a demanding course but the outcome for people who have completed it has been impressive.

In response to a question from CHAIRMAN PATTISON, **Andy Poole** said that the Bureau helps to provide the materials for the classes. Classes are held at the local level and the participants pay tuition which can vary between \$100 and \$200. Tuition assistance is available.

{Tape: 3; Side: A; Approx. Time Counter: 16 - 30}

Carroll South, Executive Director, Montana Board of Investments, DOC, provided a handout which describes the structure of the Investment management. The Board is required to provide an annual report and Carroll South provided excerpts of that for the Committee.

EXHIBIT (jnh31a09)

Carroll South said the Board has two programs. The Unified Investment Program was established by the State Constitution and provides that all agency investments would be handled through one pool. The Legislative Auditor is required by the Constitution to audit the Board every year. The Bond Program was established in 1984 as part of the Build Montana Program. The Coal Tax Trust was approved to provide loans to businesses in the state and provided for a bonding program.

Carroll South said the Board sell tax exempt bonds and lends the money to eligible governmental entities. Most Montana local governments and schools have loans from the program. The Board invests 510 individual accounts. To manage those accounts, the Board has created investment pools similar to mutual funds. Local governments and most state agencies participate in the Short Term Investment Pool (STIP).

Carroll South said the Board manages \$8.6 billion with five accounting systems. The Securities Accounting System is provided to the State by the custodial bank, State Street Bank and Trust in Massachusetts. The system is onsite and the bank provides the Board a direct line.

Carroll South said the Board has accounting systems for the mutual funds, loan program, mortgage program and the Board uses the State accounting system for records keeping. Referencing the handout, **Carroll South** described the total funds by source and the total funds by investment. The growth of the funds and a history of the income and income return was reviewed. The book value increase by investment type and the total fund income was described.

Carroll South highlighted other tables in the exhibit. He said the Coal Tax Trust In-State Loan program was mandated by the State. The Board is authorized to invest the Trust to increase employment and business opportunities, while maintaining and improving the state's physical environment. The program is comprised of five loan types which are available in the In-State Investment Program. **Carroll South** described the loan programs.

{Tape: 3; Side: B; Approx. Time Counter: 1 - 7}

Carroll South gave an overview of the bond Program, highlighting the loans by borrower type and project type. He summarized the bond and loan balances and the annual loans and interest.

REP. MUSGROVE asked about HB124 from the last legislative session which impacted the local governments ability to generate interest. **Carroll South** said it was his understanding that the types of investments local governments can make are limited by state law.

CHAIRMAN PATTISON asked what the agencies are charged for participating in STIP. **Carroll South** replied the rate changes everyday as STIP is an amortized fund. He said the actual cost to participants is two basis points which is 2/100 of one percent. **CHAIRMAN PATTISON** asked how much is borrowed against the assets. **Carroll South** said the Bonds Program and the Facility Finance Authority programs bonds are backed with the Coal Tax Trust.

REP. MUSGROVE asked about the liquidation of bonds. **Carroll South** said the Board's bond portfolio has a seven-year duration which means that for every one percent increase in interest rates, the bond prices go down seven percent. The Board has been selling bonds and making money because interest rates are the lowest they have been in 30 years.

SEN. NELSON asked if the Board invested money for the Treasure State Endowment Program (TSEP) fund and the regional water systems. **Carroll South** replied that the Board handled those investments. Last month's return was 7.1 percent.

{Tape: 3; Side: B; Approx. Time Counter: 7 - 18}

Mark Simonich, Director, DOC, said the Director's Office provides the Department with the executive, administrative, legal and policy guidance for the entire Department. Management Services Division provides the internal support for all the agencies, divisions and programs within the Department, including the support for the six boards that are attached to the agency.

Director Simonich said the Management Services Division provides accounting, fiscal, budgeting, information, contracting, purchasing, human resource administration, payroll and training services. Funding for the Division is from the internal services proprietary fund. The Department will be proposing a reduction in the rate of one/half of one percent.

REP. MUSGROVE asked about the original proprietary rate.

Director Simonich said it was 15.5 percent. He said the goal is to maintain the lowest possible internal rate for the Department.

Director Simonich stated the only present law base adjustments the Department will be proposing are for administrative costs associated with rent. The Division has no new proposals.

{Tape: 3; Side: B; Approx. Time Counter: 18 - 25}

Director Simonich summarized by saying that the DOC reaches out to many aspects of the lives of the people of Montana more so than most agencies in state government. DOC works with most of the other state agencies on a variety of programs. **Director Simonich** asked that if additional reductions in the DOC budget are needed, the agency priorities are considered.

ADJOURNMENT

Adjournment: 12 P.M.

REP. JEFF PATTISON, Chairman

ELAINE G. OLSEN, Secretary

JP/EGO

EXHIBIT (jnh31aad)